

Oversight Report



QUALITY CONTROL REVIEW OF COOPERS & LYBRAND L.L.P
RENSSELAER POLYTECHNIC INSTITUTE
FISCAL YEAR ENDED JUNE 30, 1996

Report Number PO 98-6-005

February 10, 1998

Office of the Inspector General

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Department of Defense

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Acronyms

GAS	Government Auditing Standards
OMB	Office of Management and Budget

February 10, 1998

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Coopers & Lybrand L.L.P.
1301 Avenue of the Americas
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SUBJECT: Quality Control Review of Coopers & Lybrand L.L.P.
Rensselaer Polytechnic Institute
Fiscal Year Ended June 30, 1996
Report No. PO98-6-005

Introduction

We are providing this report for your information. The Albany, New York, office of Cooper and Lybrand performed the single audit for Rensselaer Polytechnic Institute (Institute), Troy, New York, for the fiscal year ended June 30, 1996. The audit was required by the Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." The Institute reported total Federal expenditures of \$33,177,823 for the fiscal year ended June 30, 1996, representing \$8,248,332 for the Department of Defense and \$24,929,491 for other Federal agencies.

Coopers & Lybrand L.L.P. issued its audit report on September 6, 1996 and November 7, 1996. The auditors reported seven findings in the research and student financial aid programs, but questioned no costs. The auditors issued an unqualified opinion on the financial statements, Schedule of Federal Awards, and compliance with specific requirements applicable to major programs. The auditors issued positive and negative assurance on compliance with general requirements. Positive assurance means that, with respect to the items tested, the results of the auditors' procedures disclosed no material instances of noncompliance. Negative assurance means that, with respect to the items not tested, nothing came to the auditors' attention that caused them to believe that the Institute has not complied in all material respects. The auditors also obtained an understanding of the internal controls related to the financial statements and

Federal awards. The audit report describes the auditors' scope of work in obtaining that understanding and in assessing control risk. The report on Federal awards further describes the significant internal controls or control structure including the controls that provide reasonable assurance that Federal awards are being managed in compliance with applicable laws and regulations.

Quality Control Review Results

The working papers supporting the OMB Circular A-133 audit met the applicable guidance and regulatory requirements in the Circular, its related Compliance Supplement, Government Auditing Standards, generally accepted auditing standards, and the provisions of the Federal award agreements.

Quality Control Review Objective

The objective of a quality control review is to assure that the audit was conducted in accordance with applicable standards and meets the auditing requirements of the OMB Circular A-133. As a Federal funding agency for the Institute, we conducted a quality control review of the audit working papers. We focused our review on the following qualitative aspects of the audit: due professional care, planning, supervision, independence, quality control, internal controls, substantive testing, general and specific compliance testing, and the Schedule of Federal Awards.

We reviewed the report on the most recent peer review dated September 23, 1994, performed by Ernst and Young LLP, which found that Coopers & Lybrand L.L.P. met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that the standards were being complied with during the fiscal year ended March 31, 1994.

Scope and Methodology

We used the 1991 edition of the Uniform Quality Control Guide for Single Audits (the Guide), that was approved by the President's Council on Integrity and Efficiency as guidance for performing the quality control review procedures. The Guide is organized by the general and field work audit standards and the required elements of a single audit. It is further divided into the substantive work performed during the audit of the financial statements and the specific program compliance testing for major programs. In addition, we supplemented the Guide to include additional review of transaction testing.

We conducted our review September 22 through 24, and December 11 and 12, 1997. We limited the scope of our quality control review to the audit working papers covering areas related to the Institute's financial statements and to its research and development programs.

Results of Prior Quality Control Reviews

We identified minor quality control review findings and recommendations at three of the four Coopers & Lybrand L.L.P. locations we visited at various times between July 1, 1996, and June 30, 1997. The affected offices were notified, and no significant further action is necessary.

Background

The Inspector General Act of 1978, Public Law 95-452, as amended, prescribes the duties and responsibilities of that office. In implementing those responsibilities, the Inspector General is required to "take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General. "

The Single Audit Act of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments whose total annual expenditures are \$100,000 or more with respect to Federal financial assistance programs; establish uniform requirements for audits of Federal financial assistance; promote efficient and effective use of audit resources; and ensure that Federal departments and agencies rely on and use the audit work done under the Act, to the maximum extent practicable.

The Single Audit Act Amendments of 1996, based on 12 years of experience under the 1984 Act, are intended to strengthen the usefulness of single audits by increasing the audit threshold from \$100,000 to \$300,000 with respect to Federal financial assistance programs before an audit is required under the Act; by selecting programs to be audited on the basis of risk assessment rather than the amount of funds involved; and by improving the contents and timeliness of single audits. The Amendments also bring nonprofit organizations, previously covered by similar requirements under the OMB Circular A-133, under the Single Audit Act.

OMB Circular A-133 establishes the Federal audit and reporting requirements for nonprofit and educational institutions whose Federal awards are or exceed \$100,000. The Circular provides that an audit made in accordance with the Circular shall be in

lieu of any financial audit required under individual Federal awards. An agency must rely on the audit to the extent that it provides the information and assurances that an agency needs to carry out its overall responsibilities. The coordinated audit approach provides for the independent public accountant, Federal auditor, and other non-Federal auditors to consider each other's work in determining the nature, timing, and extent of their respective audit procedures. The Circular also requires that the cognizant agency obtain or conduct quality control reviews of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations. The revised Circular was issued June 30, 1997, to incorporate the changes in the Single Audit Act Amendments of 1996. Its provisions apply to audits of fiscal years beginning after June 30, 1996.

Discussion of Results

During our quality control review, we reviewed and took no exception to the working papers supporting the following reports and schedules.

Report of Independent Accountants. The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. We reviewed the audit program and the testing of evidential matter to determine whether testing was sufficient based on assessment of control risk to warrant the conclusion reached and whether the working papers supported the conclusion.

Report of Independent Accountants on Schedule of Federal Awards. The auditor is required to subject the schedule to the auditing procedures applicable to the audit of the financial statements and to ensure that the amounts are fairly stated in relation to the basic financial statements. Our review was included in the steps of evaluation of the audit working papers related to the "Report of Independent Accountants."

Schedule of Federal Awards. The recipient is responsible for creating the Schedule of Federal Awards. The auditor is required to audit the information in the Schedule and to ensure that it identifies major programs, as defined by OMB Circular A-133, and total expenditures for each program. We reviewed the audit program for the appropriate procedures, reviewed a selected number of footings/cross-footings, and traced some of the amounts to the Subsidiary Ledger and/or Trial Balance.

Report of Independent Accountants on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The auditor is required to obtain an understanding of the internal control structure that is sufficient to plan the audit and to assess control risk for the assertions embodied in the financial statements. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the substantive testing performed.

Report of Independent Accountants on Compliance with Laws, Regulations, Contracts and Grants Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on the determination of financial statement amounts. We reviewed the audit program for the appropriate procedures, the working paper documentation, its support, and the compliance tests performed.

Report of Independent Accountants on the Internal Control Structure Used in Administering Federal Awards. The auditor is required to obtain an understanding of the internal control structure and to assess control risk to determine whether the auditor intends to place reliance on the internal control structure. The auditor must perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing and detecting material noncompliance, review the system for monitoring subrecipients and obtaining and acting on subrecipient audit reports, and determine whether controls are effective to ensure that direct and indirect costs are computed and billed in accordance with requirements in the compliance supplement. We reviewed the Coopers & Lybrand L.L.P. audit programs for the appropriate procedures, the working paper documentation, and the test of controls performed and reevaluated selected internal control items.

Report of Independent Accountants on Compliance with General Requirements. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. General requirements are national policies that could have a material effect on the recipient's financial statements including those prepared for Federal programs. These requirements are political activity, the Davis-Bacon Act, civil rights, cash management, Federal financial reports, allowable costs/cost principles, the Drug-Free Workplace Act, and administrative requirements. The auditors' procedures were limited to those prescribed in the OMB Compliance Supplement for "Audits of Institutions of Higher Learning and Other Non-Profit Institutions." We reviewed the audit program for the appropriate procedures, compared the audit program steps to those in the Compliance Supplement to make sure that all areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

Report of Independent Accountants on Compliance with Specific Requirements Applicable to Major Programs. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. The specific requirements applicable to research and development programs include types of services allowed or unallowed; eligibility; matching, level of effort, and/or earmarking requirements; special reporting requirements; and special tests and provisions. We reviewed the audit program for the appropriate procedures, checked the audit program steps to those in the Compliance

Supplement to make sure that all areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

Schedule of Findings and Questioned Costs. The auditor is required to report all instances of material noncompliance in the audit report. We reconciled the findings in the working papers to the audit report to make sure that the report includes all findings identified in the working papers and that the findings are properly supported. A complete listing of all the immaterial instances of noncompliance are in Enclosure 1 of this report.

Comments

Because this report contains no findings or recommendations, written comments are not required. We appreciate the courtesies extended during the review. If you have questions on this report, please contact Mrs. Barbara Smolenyak, Program Director, at (703) 604-8761. See Enclosure 2 for the report distribution.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Rensselaer Polytechnic Institute
Fiscal Year Ended June 30, 1996

Schedule Of Findings

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13	Research	Subrecipients	DoD-ONR ²
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19	Student Aid	Disbursements (paid balances)	Dept. of Education
20	Student Aid	Disbursements (authorizations)	Dept. of Education
20	Student Aid	Perkins Collection Management	Dept. of Education

¹Repeat finding.

²Office of Naval Research.

Enclosure 1

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Fiscal Year Ended June 30, 1996

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Rensselaer Polytechnic Institute
Fiscal Year Ended June 30, 1996

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Enclosure 2
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Enclosure 2
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